

**EXAMINATION REPORT
ON
FARMERS MUTUAL FIRE INSURANCE COMPANY
OF
SCOTT, LEE AND RUSSELL COUNTY, VIRGINIA
Nickelsville, Virginia
as of
December 31, 2007**

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Farmers Mutual Fire Insurance Company of Scott, Lee and Russell County, Virginia as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 11th day of July, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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MANAGEMENT AND CONTROL

The management of the Company is vested in a board of nine directors who must be members of the Company. Directors are elected for terms of one year by a majority of members present at the Company's annual meeting held the fourth Saturday in August. Directors are required by the bylaws to meet after the annual meeting of members and in March of each year, in addition to any special meetings.

The president, vice-president, and secretary-treasurer are elected annually by directors for terms of one year.

At December 31, 2007, directors and officers were as follows:

Directors

Principal Occupation

I. E. Horton	President of the Company/Farmer
Marie Anderson	Farmer
Emmett Dick Odle	Retired/Farmer
Johnny Odle	Truck Driver/Agent for the Company
Charles Saul, Jr.	Salesman
Teresa Osborne	Farmer
Angelea Wells	Retired
Gail McConnell	Teacher
Daris Hartsock	Retired

Officers

I. E. Horton	President
Johnny Odle	Vice President
Velma Odle	Secretary-Treasurer

FIDELITY BOND

At December 31, 2007, the Company had a fidelity bond in force for \$25,000 providing coverage against dishonest acts of the secretary-treasurer and the Company's agent.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and operates as such in the counties of Scott, Lee and Russell in Virginia. The bylaws limit coverage to two-thirds of the actual cash value of the property not to exceed \$20,000 per risk. There is a \$300 deductible applied to each loss. Rates are \$0.60 per \$100 of coverage for new policies and \$0.45 per \$100 of coverage for renewals.

Business is solicited by agents elected by the members of the Company. Underwriting of risks is conducted by the agents, who are responsible for inspection and appraisal of the property, in conjunction with the approval of the director nearest the location of the property. In approving the application the director assumes responsibility for suitability of the risk and fairness of the value of the property.

Assessments are ordered by the president. The rate of assessment was last changed in 1989. The Company does not classify risks and has no reinsurance coverage. Claims are handled by the Company's agents, a nearby director and/or the secretary-treasurer, depending upon the extent of loss. All claim settlements are subject to approval of the president.

GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2007:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Surplus</u>
1998	\$301,732	\$18,831	\$282,901
1999	332,636	39,358	293,278
2000	349,568	17,963	331,605
2001	387,677	17,488	370,189
2002	386,799	18,291	368,508
2003	402,885	18,572	384,313
2004	415,939	15,777	400,162
2005	412,360	16,730	395,630
2006	434,434	14,423	420,011
2007	458,391	14,644	443,747

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Other Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance in Force</u>
1998	\$36,982	\$13,536	\$395	\$0	610	\$8,384,110
1999	36,674	12,518	22	5,631	596	7,949,110
2000	36,683	14,033	143	21,377	589	7,949,110
2001	35,214	17,048	0	1,947	594	7,796,610
2002	34,078	10,100	0	27,479	440	7,109,800
2003	33,723	8,550	0	10,344	506	7,200,050
2004	32,268	8,682	67	12,900	505	7,154,610
2005	31,414	11,722	0	31,713	479	6,520,650
2006	29,595	14,554	0	4,848	451	6,300,556
2007	29,990	18,010	0	9,700	436	5,518,250

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the principles of risk-based examination procedures contained in the *National Association of Insurance Commissioners Examiners Handbook*. Analytical review procedures were applied to non-material items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Management and Control
Territory and Plan of Operation
Fidelity Bond and Other Insurance
Conflict of Interest
Growth of the Company
Reinsurance
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the period under review and a statement of financial condition as of December 31, 2007.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net assessments received	\$31,414	\$29,595	\$29,990
Interest on cash deposits	<u>11,722</u>	<u>14,554</u>	<u>18,010</u>
Total Income	\$43,136	\$44,149	\$48,000
Deduct total disbursements for the year	<u>46,715</u>	<u>22,075</u>	<u>24,043</u>
Net Income	(\$3,579)	\$22,074	\$23,957
Add Ledger Assets December 31, previous year	<u>415,939</u>	<u>412,360</u>	<u>434,434</u>
Ledger Assets December 31, current year	<u><u>\$412,360</u></u>	<u><u>\$434,434</u></u>	<u><u>\$458,391</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net losses paid	\$31,713	\$4,848	\$9,700
Commission and brokerage	997	611	1,677
Gross salaries	7,200	7,200	7,200
Directors' fees	1,500	1,800	1,800
Travel and travel items	108		
Boards, bureaus and associations	39		
Legal and auditing	245	3,500	
Rent, office and equipment maintenance	100	380	326
Advertising	510	404	175
Printing and stationery	241		
Postage, telephone and express	1,797	2,011	1,896
Insurance and fidelity bonds	802		
Charitable contributions	375		52
Miscellaneous	26	238	210
Taxes, licenses and fees	<u>1,062</u>	<u>1,083</u>	<u>1,007</u>
Total disbursements	<u>\$46,715</u>	<u>\$22,075</u>	<u>\$24,043</u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$458,391			\$458,391
Total	<u>\$458,391</u>	<u>\$0</u>	<u>\$0</u>	<u>\$458,391</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Taxes, licenses and fees:	\$1,015
Assessments unearned	<u>13,629</u>
Total liabilities	\$14,644
Excess of admitted assets over liabilities (surplus)	<u>443,747</u>
Total	<u>\$458,391</u>

CONCLUSION

The courteous cooperation extended by the secretary-treasurer during the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Crawley, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario Cuellar", with a stylized flourish at the end.

Mario A. Cuellar, CFE

Senior Insurance Examiner

I.E. HORTON
President

13112
JOHNNY ODLE
Vice President
STATE CORP COMMISSION
BUREAU OF INSURANCE
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**Farmers Mutual Fire Insurance Comany, Inc.
Of Scott, Lee and Russell County, VA**

MRS. DICK ODLE
Secretary-Treasurer
307 Arch Lane
Nickelsville, VA 24271
(276) 479-2632

July 1, 2008

Common Wealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Va. 23218

Attention: David H. Smith CFE, CPA, CPCU

I recieved the Draft of the Audit of Farmer Mutual Fire
Insurance Company of Scott, Lee and Russell County, Virginia
on June 30, 2008.

Your truly,

Velma Odle, Sec/Treas.

